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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002517

SIPDIS

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TAGS: [EPET](#) [ECON](#) [EFIN](#) [ENRG](#) [IZ](#) [MASS](#) [MOPS](#)

SUBJECT: IRAQIS EXPECT NORTHERN OIL PRODUCTION TO INCREASE  
BY END OF YEAR

REF: BAGHDAD 2298 AND PREVIOUS

Classified By: ACTING ECONOMIC COUNSELOR JAMES BOUGHNER FOR REASONS 1.

4 B AND D.

1. (C) SUMMARY: Production capacity in the Northern Oil Company (NOC) fields will increase from 450,000 bpd to 768,000 bpd by Dec 31, 2005 when NOC well workovers are completed, according to the Director General (DG) of the Northern Oil Company. The constriction on oil exports will be the capacity of Al Fathah Crossing and the timing of the completion of the 42-inch pipeline from Kirkuk to the northern export pipeline to Turkey. The DG does not think there will be sufficient natural gas produced in the north to support the installed electric power generators in the North by late 2005. Northern Gas Company will have excess processing capacity for gas unless NOC produces gas from more wells, and additional infrastructure is repaired. DGs of both the Northern Gas and Oil Companies complain the Infrastructure Security Battalions have so far not only proved ineffective in protecting oil and gas infrastructure, but may themselves be responsible for some attacks. END SUMMARY

2. (U) ECONOFF traveled recently to Kirkuk and Al Fatah with PCO, IRMO, and JCCI to meet with the Directors General of the Northern Oil (Adil Al-Qazzaz) and Gas (Jabbar Al-liaebi) Companies and observed the ongoing activities for repairing the pipeline crossing and security operations at Al Fathah. Kirkuk-area oil and gas infrastructure, repairs and renovations undertaken by the PCO and its contractors were observed in the field locations and then briefed in detail to ECONOFF.

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EXPECTED OIL EXPORT CAPACITY FROM NORTHERN IRAQ  
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3. (SBU) Production in the oil sector is expected to increase according to the DG of the Northern Oil Company (NOC) as the US contracted work is completed on the oil field infrastructure. The DG explained how the oil and gas production would increase with the completion of the oil well workovers, the connection and renovations of the gas-oil separation plants, compressor stations, pump stations and pipeline replacements over the next six months. NOC is drilling five new wells and two additional wells are undergoing workovers by the Iraqi Drilling Company. He said the new production would rise to 768,000 barrels per day (bpd) by the end of 2005. He estimated this would provide 500,000 bpd for export via the Northern Export Pipeline through Turkey to the terminal at Ceyhan. The DG stated the NOC has exported up to 1.35 mbpd in the past when daily production was 1.5 mbpd. He proudly said, "NOC has a very good record of production." The DG of NOC was concerned with the speed of the construction at the Al Fathah crossing, speculating that his production increases might exceed the capacity of the pipelines to carry crude oil over the crossing. He said until the 42-inch pipeline is completed and secured, exports to the north are subject to stoppages from attacks, limited capacity in terms of through-put volume of pipelines, and maintenance failures.

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MAINTENANCE OF OIL INFRASTRUCTURE  
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4. (SBU) Maintenance and availability of spare parts are the greatest concern of the DG of NOC. He said, "we have no spares and we have no preventative maintenance program". The DG of NOC explained that he had "no O&M plan for NOC", primarily because he did not have the parts or budget to implement a maintenance operations plan. NOC did originally host the Oil Training Institute for Iraq, however, all of the equipment in the laboratories had been looted after the most recent war. He told us he would like to have new laboratory equipment provided by reconstruction funding to reestablish the Training Institute, and he thought that would greatly help his maintenance and training needs. He will also forward his annual budget request which will include annual funding for the training institute to MOO, as well as to IRMO who are working with USAID to assess the need and available resources.

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GAS PRODUCTION WILL NOT EXPAND FOR 2-3 YEARS  
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15. (SBU) The NOC DG explained that gas production would not expand immediately, but rather he expected additional gas production in 2-3 years, when NOC tapped a gas field east of Kirkuk. The DG said NOC would not provide sufficient increases in natural gas this year for the Northern Gas Company to process with their second train of gas processing capacity. The DG stated, "We cannot produce more than 300 mmscf of associated gas, and we need to develop more oil fields" to produce sufficient associated gas to fully utilize the capacity of the plant.

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NATURAL GAS PROCESSING CAPACITY  
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16. (SBU) The DG of the Northern Gas Company (NGC) provided a briefing on the NGC production and ongoing renovations in the Kirkuk area. Primarily he provided the information that when the second gas train (Natural gas processing facility) is repaired in Kirkuk, this will increase the capacity to over 500 mmscf per day. The PCO had planned this repair, but it would provide excess capacity for processing natural gas, beyond the 300 mmscf, which the DG for NOC said he could produce in the NOC oil fields. The DG for the NGC said he knew there was insufficient capacity of current gas production, and that there was a great need to tap additional oil and gas fields and repair the remainder of the gas-oil separation plants in the northern oil fields to provide sufficient natural gas to meet the demands of the electric power sector and the fertilizer plant.

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INFRASTRUCTURE SECURITY  
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17. (C) The DG of NOC was very concerned about pipeline security deficiencies, especially at the Al Fathah crossing over the Tigris. He made multiple negative comments about the Oil Security Battalions and thought that these units were responsible for many of the attacks against the pipelines, valves, and other oil infrastructure targets. He thought the \$100 million spent on hiring tribal forces to protect the pipeline was a resort to blackmail and extortion from the tribes along the pipeline from Kirkuk to Al-Fathah. "We need a reliable military guard force with 24 hour-guards, 200-300 meters apart along the entire pipeline" if we want to keep exporting oil, stated the DG of NOC. He said, "NOC can produce the oil, but cannot guarantee its export."

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AL-FATHAH SECURITY OBSERVATIONS  
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18. (C) The Al-Fathah oil pipeline-crossing site is currently guarded by newly recruited members of the infrastructure security forces. There were five observable guard sites near the crossing; two tent sites on either bank of the Tigris with approximately five guards each, and one tent with five guards on the highway bridge next to the three pipelines, which are laid across the surface of the bridge. These guards each have one AK-47 and two magazines of ammunition. There are no communications at or between the sites, nor is there any visible command and control presence. There are no defensive structures, and the guards appear to have had no training and incomplete uniforms. Their families provide the guards meals. There are additional forces guarding the checkpoints approaching the crossing on the two main roads. Concertina wire is laid near the pipelines on the east side of the river.

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COMMENT  
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19. (C) COMMENT: The Northern Oil Company Director General is very upbeat about increased oil production from the Kirkuk oil fields. The estimates of the Director General of NOC are in line with the PCO projections. The security situation and the inability to export oil due to lack of finished and secured pipelines reduces income from the northern Iraqi oil fields. If the production does reach 768,000 bpd by December 2005, and 500,000 bpd is available for export, this Kirkuk crude, currently selling at \$44.30 per barrel at Ceyhan FOB, would earn Iraq \$1.886 billion per quarter, or \$7.545 billion per year. This amount of additional income for Iraq, if actualized, could buy a lot more than just oil infrastructure security. END COMMENTS